

REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS

HEARING

BEFORE THE

COMMITTEE ON FINANCE UNITED STATES SENATE

SIXTY-SEVENTH CONGRESS
FIRST SESSION

ON

S. 2135

A BILL TO ENABLE THE REFUNDING OF OBLIGATIONS
OF FOREIGN GOVERNMENTS OWING TO THE UNITED
STATES OF AMERICA, AND FOR OTHER PURPOSES

WEDNESDAY, JUNE 29, 1921

Printed for the use of the Committee on Finance



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REFUNDING OF OBLIGATIONS OF FOREIGN GOVERNMENTS.

WEDNESDAY, JUNE 29, 1921.

UNITED STATES SENATE,
COMMITTEE ON FINANCE,
Washington, D. C.

The committee met, pursuant to call, at 10.30 o'clock a. m., in room 312, Senate Office Building, Senator Boies Penrose presiding.

Present: Senators Penrose (chairman), McCumber, Smoot, La Follette, Dillingham, Watson, Simmons, Williams, Jones, Gerry, Reed, Walsh, and McKellar.

Also present: Hon. Andrew W. Mellon, Secretary of the Treasury; Hon. Elliott Wadsworth, Assistant Secretary of the Treasury; and John E. Walker, Esq., chief of the legislative drafting service of the Senate.

The CHAIRMAN. The committee will come to order. The Secretary of the Treasury is expected to arrive here any minute to be heard upon a bill pending before the committee enabling the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes. The bill will be printed in the stenographer's notes as opening the meeting.

I have here a letter of the President to the chairman of the Committee on Finance, transmitting the letter of the Secretary of the Treasury and containing other matters pertaining to the subject. I suppose the members of the committee have read it. These communications will also be inserted in the notes.

(The bill and correspondence referred to are printed in full, as follows:)

[S. 2135, Sixty-seventh Congress, first session.]

A BILL To enable the refunding of obligations of foreign Governments owing to the United States of America, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury, with the approval of the President, is hereby authorized from time to time to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now owing to the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation), arising out of the European war, into bonds or other obligations of such, or of any other, foreign Government, and from time to time to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States of America, in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America, and to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor.

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THE WHITE HOUSE,
Washington, June 22, 1921.

MY DEAR SENATOR: I am inclosing to you herewith a copy of a letter which I have received from the Secretary of the Treasury relating to the obligations of foreign Governments to the United States which arose out of the World War and our participation therein. The statement is a comprehensive one, showing the detailed obligations which are owing to the United States, and the Secretary points out the urgent necessity of broad powers granted by the Congress for the arrangement for the refunding or conversion or extension of the time of payment of principal and interest on these obligations, and the adjustment of other claims of the United States against foreign Governments.

All the circumstances suggest the grant of broad powers to the Secretary of the Treasury to handle this problem in such a manner as best to protect the interests of our Government.

I hope your committee and the Congress will find it consistent promptly to sanction such an act as that which is suggested by the inclosed draft. If the Congress will promptly sanction such a grant of authority, the Secretary of the Treasury may proceed to the prompt exercise of the powers granted to him, and we reasonably may expect a satisfactory handling of the obligations due and the claims of our Government which are awaiting settlement.

Sincerely, yours,

WARREN G. HARDING.

HON. BOIES PENROSE,
Committee on Finance, United States Senate.

TREASURY DEPARTMENT,
Washington, June 21, 1921.

MY DEAR PRESIDENT: I desire to call to your attention the situation respecting the matter of the refunding of the debt of foreign Governments to the United States arising out of the European War.

This debt as now held summarized is as follows:

Obligations for advances made under the various Liberty bond acts.	\$9, 435, 225, 329. 24
Obligations received from the American relief administration.	84, 093, 963. 55
Obligations received from the Secretary of War and from the Secretary of the Navy on account of the sales of surplus war materials.	565, 048, 413. 80
Obligations held by the United States Grain Corporation.	56, 899, 879. 09
Total.	10, 141, 267, 585. 68

Annexed hereto are statements showing in detail the obligations above referred to, giving, as to each class, the amount owing by each country and, in the case of loans from the proceeds of Liberty loan bonds, the amount thereof loaned from the proceeds of the first Liberty loan bonds and the amount from subsequent Liberty loan bonds.

From this statement it will be seen that the obligations in respect of loans from the proceeds of Liberty bonds are all demand or overdue obligations, while the other classes referred to mature at various dates, beginning June 30, 1921, and extending to August 1, 1929. The obligations mentioned as being held by the United States Grain Corporation were received by that corporation from foreign Governments on account of the sale of flour under the act of March 30, 1920. As they may at any time be turned into the United States Treasury, and some of them mature on June 30 next, they are included here, so that they may be dealt with along with other like obligations.

From the statement it will also be seen that the obligations of the various classes named are largely owing by the same debtors; that is to say, this Government in the refunding of the various classes of these obligations will to a considerable extent have to deal with the same Governments.

I am advised that, except as to the advances made out of the proceeds of Liberty loan bonds, this department is without authority to consent to any extension of the time for payment of the principal or of the interest of these obligations or to proceed with the refunding thereof. As to the advances made out of the proceeds of Liberty loan bonds, the existing authority contains such diverse provisions as to interest rates, the maturity, and other terms of the refunding bonds that may be accepted by the department as makes it difficult to formulate a plan whereby the interests of this Government may be as well protected and the bonds to be received be in as desirable form as would be the case if the entire debt of each country could be dealt with as a whole and free from such restrictions.

In some cases the debtor nations owe large amounts to other countries as well as to the United States, and it may be advisable, and in some cases indeed necessary, to consider comprehensively the entire debt of such countries, its financial condition and resources, so as to work out a refunding plan reasonably within the ability of such country to carry out.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries and which may make it desirable to defer payment of interest.

Under the circumstances I have briefly referred to, it is, I think, clear that by reason of the lack of any authority as to a part of these foreign obligations and the restrictions upon the existing authority as to the others, it is impossible in any refunding, under the varying conditions that exist, to deal fairly with the debtor countries and at the same time protect the interests of this country. To do this, it is essential that the department have full authority as to all such foreign indebtedness to determine the form and terms of the settlements and of the refunding obligations, the rate or rates of interest, the maturity dates, and the right to extend the time for the payment of interest on the indebtedness to be refunded. It is also of importance that the department should have adequate authority to adjust and settle claims against foreign Governments, which are not in the form of bonds or obligations, as, for example, the claim for costs of our military forces of occupation.

I have had prepared a draft of an act of Congress to accomplish the purpose stated and should you transmit this communication to Congress shall be glad to appear before the appropriate committees relative to the situation and the necessity for the authority requested.

Faithfully, yours,

A. W. MELLON, *Secretary.*

The PRESIDENT,
The White House.

Amount of obligations of foreign Governments held by the Treasury for advances made under the various Liberty bond acts.

Country.	First Liberty bond act.	Subsequent Liberty bond acts.	Total Liberty bond acts.	Present interest rate.	Maturity.
				<i>Per cent.</i>	
Belgium.....	\$35,000,000.00	\$312,691,566.23	\$347,691,566.23	5	Demand or overdue.
Cuba.....		9,025,500.00	9,025,500.00	5	Do.
Czechoslovakia.....		61,255,206.74	61,255,206.74	5	Do.
France.....	650,000,000.00	2,300,762,938.19	2,950,762,938.19	5	Do.
Great Britain.....	1,155,000,000.00	3,011,315,358.44	4,166,315,358.44	5	Do.
Greece.....		15,000,000.00	15,000,000.00	5	Do.
Italy.....	175,000,000.00	1,473,034,050.90	1,648,034,050.90	5	Do.
Liberia.....		26,000.00	26,000.00	5	Do.
Rumania.....		23,205,819.52	23,205,819.52	5	Do.
Russia.....	97,500,000.00	90,229,750.00	187,729,750.00	5	Do.
Serbia.....	1,500,000.00	24,675,139.22	26,175,139.22	5	Do.
Total.....	2,114,000,000.00	7,321,225,329.24	9,435,225,329.24	.....

¹ Advances up to Sept. 24, 1917.

Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Belgium.....	\$19,000,000.00		Apr. 10, 1919	Apr. 10, 1922	5
	8,392,097.57		Aug. 5, 1919	Aug. 5, 1922	5
	196,483.57		Aug. 21, 1919	Aug. 21, 1922	5
		\$27,588,581.14			
Czechoslovakia.....	5,000,000.00		May 29, 1919	June 30, 1922	5
	5,000,000.00		June 15, 1919	June 30, 1923	5
	4,902,994.94		Aug. 10, 1919	June 30, 1924	5
	2,464,950.38		Oct. 14, 1919	Oct. 14, 1922	5
	1,291,903.85		Feb. 10, 1920	Jan. 28, 1923	5
	1,962,145.37		May 1, 1920	June 30, 1925	5
		20,621,994.54			

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Obligations received from the Secretary of War and from the Secretary of the Navy on account of sale of surplus war materials—Continued.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Estonia.....	\$5,000,000.00		June 6, 1919	June 30, 1922	5
	5,000,000.00		June 11, 1919	June 30, 1923	5
	2,218,377.88		June 29, 1919	June 30, 1924	5
		\$12,218,377.88			
France.....	400,000,000.00	400,000,000.00	Aug. 1, 1919	Aug. 1, 1920	5
Latvia.....	2,521,862.32	2,521,862.32	June 28, 1919	June 30, 1922	5
Lithuania.....	4,150,491.96	4,150,491.96	.....do.....	.....do.....	5
Poland.....	10,000,000.00		June 3, 1919	June 22, 1922	5
	10,000,000.00		.....do.....	June 30, 1923	5
	10,000,000.00		July 19, 1919	June 30, 1924	5
	10,000,000.00		July 22, 1919	.....do.....	5
	7,900,930.27		July 31, 1919	.....do.....	5
	5,536,867.71		Oct. 1, 1919	Oct. 1, 1925	5
	3,941,803.61		Oct. 15, 1919	Oct. 15, 1925	5
2,266,709.66		Apr. 22, 1920	Mar. 27, 1926	5	
		59,636,320.25			
Rumania.....	5,000,000.00		June 27, 1919	June 30, 1922	5
	5,000,000.00		.....do.....	June 30, 1923	5
	2,922,675.42		Aug. 13, 1919	June 30, 1924	5
		12,922,675.42			
Russia.....	406,082.30	406,082.30	Aug. 8, 1919	June 30, 1922	5
Serbs, Croats, and Slovenes.....	5,000,000.00		June 13, 1919	.....do.....	5
	5,000,000.00		Aug. 30, 1919	June 30, 1923	5
	10,000,000.00		.....do.....	June 30, 1924	5
	50,350.28		Dec. 20, 1919	.....do.....	5
	241,205.51		Apr. 15, 1920	Apr. 15, 1924	5
	4,646,465.20		Apr. 29, 1920	June 30, 1925	5
		24,978,020.99			
Total.....		565,048,413.90			

Obligations held by the United States Grain Corporation.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
					<i>Per cent.</i>
Armenia.....	\$793,733.40		Nov. 26, 1919	June 30, 1921	5
	472,533.00		Nov. 29, 1919	.....do.....	5
	656,190.00		Dec. 10, 1919	.....do.....	5
	748,725.00		Jan. 26, 1920	.....do.....	5
	129,405.00		Jan. 29, 1920	.....do.....	5
	949,665.11		May 20, 1920	.....do.....	5
	181,253.83		June 17, 1920	.....do.....	5
		\$1,931,505.34			
Austria.....	24,055,708.92	24,055,708.92	Sept. 4, 1920	Jan. 21, 1925	6
Czechoslovakia.....	2,875,238.25	2,875,238.25	July 30, 1920	Jan. 1, 1925	6
Hungary.....	1,085,835.61	1,085,835.61	May 29, 1920	.....do.....	6
Poland.....	682,147.50		Dec. 1, 1919	June 30, 1921	5
	143,632.50		Dec. 19, 1919	.....do.....	5
	2,149,539.37		Mar. 12, 1920	.....do.....	5
	931,975.89		Mar. 22, 1920	.....do.....	5
	1,005,665.06		Mar. 26, 1920	.....do.....	5
	1,034,133.66		Apr. 2, 1920	.....do.....	5
	834,591.99		Apr. 9, 1920	.....do.....	5
	951,392.04		Apr. 13, 1920	.....do.....	5
	1,147,319.34		Apr. 23, 1920	.....do.....	5
	824,633.04		Apr. 26, 1920	.....do.....	5
	455,904.98		May 10, 1920	.....do.....	5
	759,134.29		May 12, 1920	.....do.....	5
	418,331.49		May 13, 1920	.....do.....	5
	68,551.18		May 14, 1920	.....do.....	5
	47,377.06		June 2, 1920	.....do.....	5
	30,720.85		July 7, 1920	.....do.....	5
	62,196.88		July 14, 1920	.....do.....	5
12,152,279.75		July 13, 1920	.....do.....	6	
		24,353,590.97			
Total.....		58,899,879.09			

Obligations received by the Treasury from the American Relief Administration.

Country.	Principal amount payable.	Total.	Date of obligation.	Date of maturity.	Interest rate.
Armenia.....	\$8,028,412.15	\$8,028,412.15	June 30, 1919	June 30, 1921	<i>Per cent.</i> 5
Czechoslovakia.....	6,428,089.19	6,428,089.19	.....do.....	June 30, 1923	5
Estonia.....	1,785,767.72	1,785,767.72	Aug. 11, 1919	June 30, 1921	5
Finland.....	3,289,276.98	.....	June 30, 1919	.....do.....	5
	4,992,649.19	.....	July 1, 1920	.....do.....	5
		8,281,926.17			
Latvia.....	2,610,417.82	2,610,417.82	June 30, 1919	.....do.....	5
Lithuania.....	822,136.07	822,136.07	.....do.....	.....do.....	5
Poland.....	10,000,000.00	.....	.....do.....	.....do.....	5
	10,000,000.00	.....	.....do.....	June 30, 1922	5
	31,671,749.36	.....	.....do.....	June 30, 1923	5
Russia.....	4,465,465.07	51,671,749.36	July 1, 1919	June 30, 1921	5
		4,465,465.07			
Total.....		84,093,963.55			

The CHAIRMAN. Mr. Walker, Senator Walsh has just made inquiry as to the present law with respect to the refunding of these foreign debts. Will you kindly take the stand for a moment and inform the committee as to the law and refer the committee to it.

STATEMENT OF MR. JOHN E. WALKER, CHIEF OF THE LEGISLATIVE DRAFTING SERVICE OF THE SENATE.

Mr. WALKER. The authority is under sections 2 and 3 of the second Liberty bond act, approved September 24, 1917. Those sections are as follows:

Sec. 2. That for the purpose of more effectually providing for the national security and defense; and prosecuting the war, the Secretary of the Treasury, with the approval of the President, is hereby authorized, on behalf of the United States, to establish credits with the United States for any foreign Governments then engaged in war with the enemies of the United States; and, to the extent of the credits so established from time to time, the Secretary of the Treasury is hereby authorized, to purchase, at par, from such foreign Governments respectively their several obligations hereafter issued, bearing such rate or rates of interest, maturing at such date or dates, not later than the bonds of the United States then last issued under the authority of this act, or of such act approved April 24, 1917, and containing such terms and conditions as the Secretary of the Treasury may from time to time determine, or to make advances to or for the account of any such foreign Governments, and to receive such obligations at par for the amount of any such advances; but the rate or rates of interest borne by any such obligations shall not be less than the highest rate borne by any bonds of the United States which, at the time of the acquisition thereof, shall have been issued under authority of said act approved April 24, 1917, or of this act, and any such obligations shall contain such provisions as the Secretary of the Treasury may from time to time determine for the conversion of a proportionate part of such obligations into obligations bearing a higher rate of interest if bonds of the United States issued under authority of this act shall be converted into other bonds of the United States bearing a higher rate of interest, but the rate of interest in such foreign obligations issued upon such conversion shall not be less than the highest rate of interest borne by such bonds of the United States; and the Secretary of the Treasury, with the approval of the President, is hereby authorized to enter into such arrangements from time to time with any such foreign Governments as may be necessary or desirable for establishing such credits and for the payment of such obligations of foreign Governments before maturity. For the purposes of this section there is appropriated, out of any money in the Treasury not otherwise appropriated, the sum of \$4,000,000,000, and in addition thereto the unexpended balance of the appropriations made by section two of said act approved April 24, 1917, or so much thereof as may be necessary: *Provided*, That the authority granted by this section to the Secretary of the Treasury to establish credits for foreign Governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

SEC. 3. That the Secretary of the Treasury is hereby authorized, from time to time, to exercise in respect to any obligations of foreign Governments acquired under authority of this act or of said act approved April 24, 1917, any privilege of conversion into obligations bearing interest at a higher rate provided for in or pursuant to this act or said act approved April 24, 1917, and to convert any short-time obligations of foreign Governments which may have been purchased under the authority of this act or of said act approved April 24, 1917, into long-time obligations of such foreign Governments, respectively, maturing not later than the bonds of the United States then last issued under the authority of this act or of said act approved April 24, 1917, as the case may be, and in such form and terms as the Secretary of the Treasury may prescribe; but the rate or rates of interest borne by any such long-time obligations at the time of their acquisition shall not be less than the rate borne by the short-time obligations so converted into such long-time obligations; and, under such terms and conditions as he may from time to time prescribe, to receive payment, on or before maturity, of any obligations of such foreign Governments acquired on behalf of the United States under authority of this act or of said act approved April 24, 1917, and, with the approval of the President, to sell any of such obligations (but not at less than the purchase price with accrued interest unless otherwise hereafter provided by law), and to apply the proceeds thereof, and any payments so received from foreign Governments on account of the principal of their said obligations, to the redemption or purchase, at not more than par and accrued interest, of any bonds of the United States issued under authority of this act or of said act approved April 24, 1917; and if such bonds can not be so redeemed or purchased the Secretary of the Treasury shall redeem or purchase any other outstanding interest-bearing obligations of the United States which may at such time be subject to redemption or which can be purchased at not more than par and accrued interest.

Senator WALSH. Mr. Chairman, I have a memorandum which was furnished yesterday by the Treasury Department and which I think should go in the record. The first table in this memorandum shows cash advances to foreign Governments pursuant to acts of April 24, 1917, September 24, 1917, April 4, 1918, and July 9, 1918, as at the close of business June 27, 1921. That table shows a total of \$9,597,518,741.09.

The second table in the memorandum is "Of which the following repayments have been made"; and that shows a total of repayments of \$162,293,411.85.

The third table in the memorandum shows "interest heretofore paid by each of the foreign Governments on above mentioned advances." That table shows a total interest paid of \$451,736,985.21.

The memorandum is very concise and I think adds to the record and brings it right up to date.

The CHAIRMAN. I think that is true. The memorandum will be inserted at the suggestion of Senator Walsh.

(The memorandum referred to is as follows:)

Cash advances to foreign Governments pursuant to acts of Apr. 24, 1917, Sept. 24, 1917, Apr. 4, 1918, and July 9, 1918, as at the close of business June 27, 1921.

Belgium.....	\$349,214,467.89
Cuba.....	10,000,000.00
Czechoslovakia.....	61,256,206.74
France.....	2,997,477,800.00
Great Britain.....	4,277,000,000.00
Greece.....	15,000,000.00
Italy.....	1,648,034,050.90
Liberia.....	26,000.00
Rumania.....	25,000,000.00
Russia.....	187,729,750.00
Serbia.....	26,780,465.56

Total..... 9,597,518,741.09

Of which the following repayments have been made:

Great Britain.....	\$110,681,641.56
France.....	46,714,861.81
Rumania.....	1,794,180.48
Belgium.....	1,522,901.66
Cuba.....	974,500.00
Serbia.....	605,326.34
Total.....	162,293,411.85

Interest heretofore paid by each of the foreign Governments on above-mentioned advances.

Belgium.....	\$10,907,281.55
Cuba.....	1,282,369.54
Czechoslovakia.....	304,178.09
France.....	129,570,376.13
Great Britain.....	245,557,185.50
Greece.....	784,153.34
Italy.....	57,598,852.62
Liberia.....	861.10
Rumania.....	263,313.74
Russia.....	4,832,354.46
Serbia.....	636,059.14
Total.....	451,736,985.21

STATEMENT OF HON. ANDREW W. MELLON, SECRETARY OF THE TREASURY.

The CHAIRMAN. The committee has with it to-day, in connection with the bill under consideration, the Secretary of the Treasury and certain employees in the Treasury Department whom he has brought with him on his invitation. I will ask the Secretary if he will state to the committee how he would like the proceedings to be conducted.

Secretary MELLON. I am ready to furnish any information. We have copies of all of the documents and everything relating to these obligations.

The CHAIRMAN. Do you desire, Mr. Secretary, to state in your own way to the committee, without interruption, what you might desire to say and then have the members of the committee address to you any inquiries that they wish to make?

Secretary MELLON. I have prepared a short preliminary statement with regard to the authority that is asked for and the reasons therefor.

The CHAIRMAN. Will you kindly read it?

Secretary MELLON. I shall ask Mr. Wadsworth to read the statement.

Mr. WADSWORTH (reading):

The request for authority to deal with the debtor nations relating to their obligations is necessary to the Treasury Department. The department is without authority to consent to any extension of the time for payment of principal and interest of the debts of a number of the debtor nations, and in the case of those where the debts arose from advances out of the proceeds of Liberty loan bonds the authority is, to a large extent, restricted. Without the broad authority provided in the act submitted to you, it would be difficult and in some cases impossible to proceed and procure the new securities in a form that will protect the interests of the Government. The reasons for asking the broad authority which will cover any contingencies that may arise in the negotiations is that it is essential to have the new securities in the most substantial form, so that they may be available to this Government for any future use. It is essential that the authority be complete, so that no question may arise in the future respecting their liability.

In the case of some of the debtor countries it is impossible for them to make payment of their obligations as they now mature. It is impossible for some of them to make payment of the maturing interest. To insist on payment might be disastrous to the peoples of such countries; and besides there may have to be given consideration to the bearing of the adverse foreign exchange rates existing at the time against these debtor countries and which may make it desirable to defer payment of interest.

It is of the utmost importance that the department shall have adequate authority relating to these claims so that the negotiations may proceed and the adjustments and refunding be accomplished in a sound and businesslike manner. The problem is one which has grown out of the war. The authority asked while it may appear broad, is no more than is actually needed. The United States is a creditor nation to the extent of over \$10,000,000, and this great asset must be dealt with by the Government, and if the power is granted to the Secretary of the Treasury it will be used to serve the best interest of the Government and people.

Senator WATSON. Has any statement been made showing the amount of interest due and the amount of interest that has been paid by each nation?

Senator SMOOT. That was just put into the record.

Senator WATSON. I did not understand it that way. Senator Walsh, did you put in a statement showing the amount of interest due and the amount of interest that has been paid by each nation?

Senator WALSH. Yes.

Senator WATSON. I did not understand that your statement was that inclusive.

Senator WALSH. It was the total indebtedness; the amount paid under the indebtedness and the amount of interest due. Evidently the money that has been paid has been applied to the principal rather than to the interest.

Senator LA FOLLETTE. The first statement is, "Cash advances to foreign Governments pursuant to acts of April 24, 1917, September 24, 1917, April 4, 1918, and July 9, 1918, as at the close of business June 27, 1921." Then follows a table showing those advances. That is succeeded by a table the heading of which is, "Of which the following repayments have been made." Then follows a table giving the amounts and naming the countries. Following that there is a table under the heading "Interest heretofore paid by each of the foreign governments on above mentioned advances." There is no table here showing the amount of interest due at the present time.

Senator WALSH. You mean the principal and interest of each country?

Senator WATSON. What I was trying to get at was the amount of interest due by each nation and the amount paid by each nation. From reading the statement I got the impression that the money that had been paid had been credited to the principal rather than to the interest. Senator McCumber last year, when the former Secretary of the Treasury was before the committee, printed a statement, as I recall, showing the amount of interest that was due and the amount of interest that had been paid. What I was trying to get at was the amount of interest that each nation owed us. Is it true that the amount of money paid by these debtor nations has been credited to principal and not to interest?

Mr. WADSWORTH. There has been interest also paid which was credited as interest at the time.

Senator SMOOT. Have you not a list of the amount of interest due up to date from each country?

Mr. WADSWORTH. This statement shows the interest due and unpaid under different categories of loans; that is, whether they were made out of Liberty loans or whether they were made under European relief or for surplus war material.

The interest is figured up to the last interest date, which varies. That is, certain of these notes have their interest date on April 15; others on May 15; others on June 1, etc. So I have taken the last date in each case, the last six months.

The interest due on the Liberty loan accounts, that is, the money that was advanced under the Liberty bond acts to which Senator Walsh just referred, is \$922,550,143.22. That is due on that particular category.

On the relief notes the interest due is \$8,168,687.29.

On the notes received from the War Department and the Navy Department for the sale of surplus war supplies the amount of interest due is \$10,929,130.39.

Upon the notes held by the United States Grain Corporation, which were received in payment for flour which was sold abroad about a year ago under the authority giving the Grain Corporation the privilege of selling, the interest due is \$1,886,795.09.

This makes a grand total not to the present date, but to the last interest date as provided—

Senator REED. Which is when?

Mr. WADSWORTH. It varies in each case. The interest is payable each six months, and I have figured it up to the last date on which interest was due.

Senator WALSH. On each note?

Mr. WADSWORTH. Yes; on each note.

Senator REED. About when would that average?

Mr. WADSWORTH. I should think it would average about the 15th of May or the 15th of April, somewhere in there. The total is \$943,534,755.99.

Senator McCUMBER. That is interest alone?

Mr. WADSWORTH. That is interest.

Senator SMOOT. The interest up to date would be a little over a billion dollars.

Mr. WADSWORTH. Yes, sir.

Senator DILLINGHAM. At what rate is that figured?

Mr. WADSWORTH. Practically everything is figured at 5 per cent. I think there were notes received in the sale of relief supplies that bore 6 per cent interest.

Senator WATSON. That is the amount of interest now due? That does not take into account any interest that has heretofore been paid?

Mr. WADSWORTH. No. The interest was paid on all the Liberty loan advances, except a small amount on the Russian advances, up to the interest dates in the spring of 1919; that is, up to April 15 and May 15, 1919.

(The table referred to by Mr. Wadsworth is as follows:)

Total obligations of foreign Governments held by the Treasury and United States Grain Corporation, interest accrued thereon and unpaid, and interest that has been paid into the Treasury.

Class.	Amount of obligations.	Interest due and unpaid.	Interest paid.
Liberty bond acts.....	90,435,225,329.24	\$22,550,143.22	\$451,736,965.21
American relief.....	84,083,963.55	8,168,687.29	.....
War Department ¹	562,781,704.14	10,929,130.39	73,420,537.04
Navy Department ¹	2,286,709.66	.....	114,166.67
United States Grain Corporation.....	56,899,879.09	1,836,793.09	.....
Total.....	10,141,267,585.68	943,534,755.99	465,271,689.92

¹ Combined in letter as obligations received from Secretary of War and Secretary of the Navy amounting to \$565,048,413.80.

Senator REED. Mr. Wadsworth, I ask this question in the form of a statement. I have been informed—I do not know whether it is correct information or not—that on some of these loans upon the interest becoming due it was paid out of further advances by our Government. That is, our Government advanced further money, and then that money was devoted to the payment of interest. What are the facts?

Mr. WADSWORTH. I think that is probably true, to a considerable extent.

Senator REED. Can you from your books give us a statement showing exactly what the facts are?

Mr. WADSWORTH. No; because the money that was advanced by the United States to these countries went into their bank balances and they had some other sources of money. They were raising some money here by the sale of securities and Treasury notes, and they went into the same bank balances. So we could not tell exactly what other assets they might have had to pay interest with in addition to the money that the United States loaned them.

Senator REED. You have been with the Treasury Department some time, have you not?

Mr. WADSWORTH. No; only two or three months.

Senator REED. Does not somebody in the Treasury Department know what the facts are? Speaking for myself, I do not want to have any doubt left about this matter; and surely the Treasury when it loaned large sums of money subsequent to the war must have been advised as to what use that money was to be put; and, therefore, although they may have carried the money into a general bank account and then checked out for the interest, our Government must know the substantial facts.

Mr. WADSWORTH. I think it is safe to say that substantially they did use our advances to pay the interest.

Secretary MELLON. Yes; but may I explain the distinction? That interest was paid out of money that had been set apart or committed to these countries. It was not paid out of additional money that had not been authorized before.

Mr. WADSWORTH. No.

Senator REED. That is, Mr. Secretary, as I understand you, certain credits had been established for the benefit of foreign coun-

tries. That is to say, our Government had said we will put to the credit of a certain country, let us say England, so many millions of dollars.

Secretary MELLON. Yes.

Senator REED. Of course, that money had to be put to the credit of that nation under the terms of the various Liberty loan acts. Now, if that money, no matter what kind of a credit had been established; was in fact used with the knowledge of this Government, not to carry on the war, not for any war purpose, but for the purpose of paying interest upon these obligations, that presents a very important point. Of course, my contention is that we had no right to establish credits that went beyond the actual war and beyond war purposes. Others take the other view, and I am not arguing that, but what I want to get at is the fact, how much money paid by this Government to foreign countries subsequent to the war was actually by them in turn devoted to the payment of interest? That is a question that I am sure Mr. Wadsworth or yourself can answer by the time we meet again.

Secretary MELLON. The answer would be that that particular country was entitled to this money. They had it set apart to them and the interest became due and they used that money or other money. There were other moneys that they had. They were together, just as Mr. Wadsworth has explained, and they met the interest as it became due.

Senator REED. But that is not my question. You are saying the answer would be that they were entitled to this money. That is a question to be settled, and I am not asking this in a critical sense at all. What I want to get at is the fact as to how much money they paid in the way of interest of the moneys that were advanced to them subsequent to the war.

Senator SMOOT. It does not make any difference. Their obligations had to be paid. Whether the money was for interest or for the purchase of munitions of war or whether it was for the purchase of the army, it had to be paid, and in the assignment of this money the Treasury Department assigns so much to England, say.

Senator REED. I understand what they did.

Senator SMOOT. I can not see any difference at all whether the obligations of interest they were compelled to pay were paid by their money, collected from their taxes at home, or whether they were paid out of their credit here by our Government.

The CHAIRMAN. The Chair hopes, and is not going to repeat it, because every member of the committee has his rights, that this matter will not be debated. We are here this morning to hear the officials of the Treasury Department. If the Senator from Utah, or others, want to debate it with the Senator from Missouri, we will do that in executive session; and I suggest the Secretary of the Treasury, whose time is valuable, be permitted to go ahead and answer questions. That is what he is here now for and is ready to do.

Senator REED. Well, I have asked one question which I hope will be answered at the next session by a clear statement.

Senator WATSON. Mr. Secretary, have any negotiations been entered into looking to the refunding of this debt that you can publicly state?

Secretary MELLON. Just a preliminary negotiation in the case of Great Britain. That is the only one that has been taken up.

Senator WATSON. Is there any dispute whatever with any nation as to the amount of money that that nation owes us?

Secretary MELLON. I think not.

Senator WATSON. No dispute whatever?

Secretary MELLON. No dispute.

Senator WATSON. And you have all the papers and documents that are essential to make proof?

Secretary MELLON. Yes.

Senator SIMMONS. This question may have been asked you before I came in, Mr. Secretary, but I would like to inquire if there has been any suggestion by any of our allies or European creditors that we take German bonds in exchange for their indebtedness?

Secretary MELLON. No; there has been no such suggestion, so far as the Treasury is concerned or so far as my knowledge goes.

Senator SIMMONS. Has the Treasury Department any intention of entertaining suggestions or propositions of that character?

Secretary MELLON. No. I do not anticipate any such suggestion.

Senator WILLIAMS. What is that?

Secretary MELLON. The question was whether there is any intention on the part of the Treasury to accept German bonds in lieu of the obligations of these Governments.

Senator SIMMONS. You say there has been no proposition and the department is not considering itself inviting or accepting any suggestions of that sort?

Secretary MELLON. That is correct.

Senator REED. Then, may I ask you why this language appears in the bill? I read the context, which is as follows:

That the Secretary of the Treasury, with the approval of the President, is hereby authorized from time to time to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign Government now owing to the United States of America, or any obligation of any foreign Government hereafter received by the United States of America (including obligations held by the United States Grain Corporation), arising out of the European war, into bonds or other obligations of such, or any other, foreign Government.

For the last words, "or any other foreign Government," clearly imply a purpose to accept in lieu of the obligation of the country now running to us the obligation of some other country.

Secretary MELLON. Yes. It was considered desirable to be prepared for any contingency. You can imagine where a country that may be weak in its resources and that country may have, say, German bonds or bonds of some other country. It may add to the security if those other bonds can be accepted, and they naturally will be accepted with the indorsement or guarantee of the country having the primary obligation.

Senator REED. This bill does not say that.

Secretary MELLON. Well, it gives authority. You can not in the bill provide in detail for specific methods. It must be broad enough to meet the conditions at the time. That condition which you speak of may not arise, but there may be that contingency, and it may be desirable to have the authority to accept such security.

Senator REED. I can not quote your exact language, but you said just a moment ago, in substance, that a government might be weak,

and it might be desirable to accept bonds of some other government, and you mentioned Germany as an illustration. So you do contemplate that a situation might arise in which it would be desirable to be authorized to accept German bonds?

Secretary MELLON. There is no specific contemplation. It is simply that we do not know the conditions that may have to be met, and therefore it is desirable, and may be essential, to have authority in that direction.

Senator REED. That is to say, it may be desirable and essential, in your judgment, to accept German bonds in lieu of the bonds of the particular Government that obtained the money from us?

Senator WATSON. If the bonds were indorsed by the Government?

Senator REED. I do not want that put in my question.

Senator WATSON. Well, I am putting that.

Senator REED. Well, you put it as your question.

Secretary MELLON. Naturally, that guarantee would follow. It would follow in any business transaction where a debtor brought some obligation of another person. You would accept that with the guarantee of your debtor.

Senator REED. But that does not follow from the language of this bill.

Secretary MELLON. As I said before, the bill is made broad enough so that any contingency that is likely to arise may be met.

Senator REED. But the bill gives authority to refund or convert obligations held by the United States into the bonds or other obligations of the country giving the obligation originally or any other country. That is clearly a broad authority to take bonds, for instance, of Czechoslovakia and have them canceled and to accept in lieu of them the bonds of any other country which the Secretary of the Treasury thinks it would be advantageous to accept. There is nothing said about any guaranty. On the other hand, the language negatives the idea of a guaranty, because you are to convert the one obligation into the other. Now, do you want the bill left in that shape?

Secretary MELLON. I think it is desirable to have authority broad enough to cover any contingency which might arise and so that in the future these securities that may be taken may be in sound legal form, and so that no question can be raised that there was not authority to take them. It is, after all, a question of sound judgment at the time as to what is best to be done under the conditions that exist in that particular case, and as it would be with any person having a debtor to deal with, to have the authority to do the best with it and to have the securities which he accepts in proper legal shape.

Senator REED. You have heard the question discussed, or known of the question being discussed, by very important public men of the United States accepting German bonds in lieu of the bonds of some of these countries?

Secretary MELLON. I have seen newspaper suggestions.

Senator REED. You know it has been discussed, do you not, by European statesmen that it was part of a plan of some of the allied statesmen?

Secretary MELLON. Oh, no doubt; but there is not any reason for considering that proposition.

Senator SIMMONS. Does not the incorporation of this language in the bill furnish a reason why they should begin to consider it? You say they have made no such proposition up to this time. If you put this provision in this bill, is not that a suggestion to them that we would be open to a proposition of that sort?

Secretary MELLON. I do not think so. Anything that is in this bill does not put any obligation or disposition on the department to accept something that is not a sound business proposition.

Senator SIMMONS. But would it be assumed that we would put this in the bill unless we meant that we would be open to the consideration of a suggestion or proposition of that character?

Secretary MELLON. There is not that which you speak of in the bill. That is, we do not ask for specific authority to accept the German bonds. It is merely that other securities can be accepted. We do not know what they may be. Those countries may have something more local, something that may be sound and may be available, and out of which we can realize quicker and to better advantage than with their own obligations.

Senator REED. What do you have in mind when you say "something local"?

Secretary MELLON. I have not anything specific in mind, but those Governments have certain resources, and they may offer us something in that direction, and it may be of advantage to accept some such suggestion.

Senator REED. Right in line with Senator Simmons's question as to whether this bill was not an invitation to other Governments to offer other securities, I want to read, in connection with the language which I read a while ago, much more significant language. Beginning on line 11 of the bill, the following appears:

arising out of the European war, into bonds or other obligations of such, or of any other, foreign Government, and from time to time to receive bonds and obligations of any foreign Government in substitution for those now or hereafter held by the United States of America.

Senator DILLINGHAM. Senator, would it not be well to read the next three or four lines?

Senator REED (reading):

in such form and of such terms, conditions, date or dates of maturity, and rate or rates of interest, and with such security, if any, as shall be deemed for the best interests of the United States of America, and to adjust and settle any and all claims, not now represented by bonds or obligations, which the United States of America now has or hereafter may have against any foreign Government and to accept securities therefor.

Now, clearly, I think, Mr. Secretary, you must have meant that to give you the power to accept the bonds of France—I am illustrating—for the English debt, or the bonds of Italy for the French debt, or the bonds of Germany for any of these debts, or the bonds of Turkey for any of these debts. That is, the power is there.

Secretary MELLON. There was no such thought, and as to that suggestion I think that would be a very remote contingency. I do not imagine that any such occasion will arise. I can not imagine it.

Senator WILLIAMS. Unless the Treasury Department lost its business sense.

Secretary MELLON. Generally, this authority should be given in a broad way because we do not know exactly what conditions we may have to meet. Some of these countries are in a desperate condition economically.

Senator REED. Which ones?

Secretary MELLON. I am not prepared to specify particular countries, but where to-day you could not collect money, nor could you get a security that would have a marketable value or be available. These countries as time goes on will become rehabilitated; the people will get back to work; new generations are coming on and working and the whole condition will change. Those securities that may be put into form now and held will as time goes on ripen and become of real value and be sound and in time become available. The obvious thing to do in those cases is to put them in the best possible shape and get the best possible security, and then keep them in that shape until they become available.

This country is not losing. The interest on the securities will accrue and will perhaps not be paid, but it will accumulate, and the time will come, even in those weak countries, where something of value will be obtained. As to the stronger nations, their securities will sooner become available.

Senator REED. But, Mr. Secretary, if these bonds which are to be taken from weak governments are ultimately becoming good, as you hope, and as we all hope, then what we want is the obligation of that government to the end that when it does become good we will have an obligation that we can collect. Is that not true?

Secretary MELLON. I do not understand that anyone expects anything else than that.

Senator REED. Why is it written in this bill that you can take the obligations of other Governments if you expect to take the obligation of a Government that will not ultimately become good?

Secretary MELLON. We do not expect it. I do not know that that condition will ever arise, but it is desirable to have the authority.

Senator WALSH. Would you object to a provision eliminating the German bonds and securities?

Secretary MELLON. It is not for me to object to whatever form in which you may give this authority.

Senator WALSH. What is your opinion of it?

Secretary MELLON. It is only that I think it is very essential to have the complete authority, so that if something has to be done in the direction of these particular—

Senator GERRY (interposing). Mr. Secretary, am I right in understanding, then, that the Treasury Department has no definite plan now for refunding these obligations and simply wants this power in order to carry out its negotiations without having to come back to Congress for final action?

Secretary MELLON. That is absolutely so.

Senator WALSH. All power ends on the passage of the peace resolution, does it not?

Secretary MELLON. No; the authority under the Liberty loan acts continues.

Senator WALSH. Does it not say in section 2 that—

the authority granted by this section to the Secretary of the Treasury to establish credits for foreign Governments, as aforesaid, shall cease upon the termination of the war between the United States and the Imperial German Government.

Secretary MELLON. Yes; but we are not getting any authority to establish credits. We are not asking any authority to establish credits.

Senator WALSH. But are you not changing credits?

Secretary MELLON. No; but the authority that you speak of—that is, the authority to refund these bonds—is given in that bill, and that is not abrogated by the peace treaty.

Senator WALSH. Only the authority to establish new credits is abrogated?

Secretary MELLON. Yes; which is not in question now.

Senator REED. Do you understand now that you have no authority to establish credits under the Liberty loan acts?

Secretary MELLON. Oh, most certainly. At least, I believe I am right in that. I do not know of any such authority.

Mr. WADSWORTH. There have been no new credits established and none is considered.

Senator WALSH. But you have the right to until peace is finally determined?

Senator REED. Why does not that authority exist now, if it existed any day since the armistice was signed?

Secretary MELLON. If it does exist it is obsolete.

Senator REED. Has any money been paid to these foreign Governments under credits established, or otherwise, since you became Secretary of the Treasury?

Secretary MELLON. Nothing except in the case of \$16,000,000 which had been provided and which had been arranged formally, and the transaction not completed. That was \$16,000,000 which was merely a transfer. It was an amount that had been contracted to be advanced to Italy, and under the arrangement which was carried out after I came into the office that \$16,000,000 was paid to Italy and paid by Italy to one of the other Governments, and that other Government paid it back to the United States. The effect of that transaction was that the \$16,000,000 in question was transferred from Italy to France, but there was not any question about it. The contract had been made and legally made, and there was not anything else for the Treasury to do.

Senator REED. The contract that you speak of was a commitment of this money to France made subsequent to the armistice, was it not?

Secretary MELLON. No; it was an arrangement that had been made and legally made under the act.

Senator REED. Was it made before the armistice or after the armistice?

Secretary MELLON. It was, as I understand, made before the armistice.

Mr. WADSWORTH. May I say a word on that point? The last annual report of the Treasury Department recited the fact that there were certain credits still outstanding to four different nations; that those credits would only be used to make advances to cover commitments that have been made by those nations, but that no new credits would be established. There was a credit in favor of Italy and a credit in favor of France.

As set out at page 55 of the annual report of the Secretary of the Treasury for the fiscal year ending June 30, 1920, the present balance of credit established by the Secretary of the Treasury in favor of the

Italian Government under the authority of the Liberty bond acts is \$34,921,192.93. This was established for the purpose of enabling the Italian Government to make to the British Government certain reimbursements in dollars when there should have been agreed between the British Government and the Treasury the amount of such reimbursements which the Treasury would assent to the Italian Government's making out of advances from the United States Treasury and when the Italian Government should have requested the Treasury to make it advances for that purpose. This amount has been determined to be \$16,695,063.91. The British Government has agreed upon receipt of this amount from the Italian Government to pay it to the Secretary of the Treasury to be applied by him upon French obligations held by the United States Government.

Senator REED. When was that agreement made that is referred to in the matter you have just read?

Mr. WADSWORTH. I could not say, but it was a part of the clean-up of war accounts.

Senator REED. It was after the war?

Mr. WADSWORTH. Yes; I presume it was.

Senator REED. It was a proposition, then, not to enable Italy to carry on the war, but to enable Italy to pay a debt which she owed to France, and France in turn to pay a debt which she owed to Great Britain?

Secretary MELLON. It all arose out of the war.

Senator REED. I understand that it arose out of the war. There were about twenty billion other obligations that arose out of the war, but it does not follow that we were to pay those other obligations.

The CHAIRMAN. The whole transaction was managed and conducted under the Wilson administration, was it not?

Secretary MELLON. Yes.

Senator REED. I am not trying to criticize anybody.

The CHAIRMAN. I know that, Senator Reed.

Senator REED. I am trying to get at a fact. Whether it was done by the Wilson administration or by the present administration, I would be equally free to have my opinion.

The CHAIRMAN. I hope the Senator believes that I feel that way.

Senator REED. I do, Mr. Chairman. What I am trying to get at is this: I want to know the date of that transaction, and I want to ask you if the effect of it was not that the United States gave to Italy money with which she was to pay an obligation that she owed to France, and if that arrangement was not made subsequent to the armistice.

Mr. WADSWORTH. I hesitate to say offhand what this grew out of, but my remembrance is that the United States was advancing money for certain joint purchases and receiving the obligations of these countries; that it so happened when the accounts were adjusted that it found that we had received more from Italy than we had from France, more than was fair to the proper adjustment of the supplies that were delivered, and that this was simply a readjustment of those loans, which if they had been made exact to the correct amount in each case there would have been no need of this transaction.

Senator REED. But how does it happen that Italy owed France, and France, of course, owed England? Italy was settling her debt to France by this transaction, was she not? It was a debt that Italy

owed France and we put up the money. Then France took that money and paid England something she owed England. Then England paid us \$16,000,000 and got a credit from us of \$16,000,000.

Senator McCUMBER. I do not understand that to be the case. That was not the statement. It was credited to France and not to England.

Mr. WADSWORTH. It was credited to France.

Senator REED. Let us see if I can state it correctly, and I want to state it correctly. Italy owed England \$16,000,000. After the war was over we gave Italy \$16,000,000 in cash. That is the effect of the transaction. Italy then paid to Great Britain her \$16,000,000 debt. Great Britain then paid to France. Now, from that on, where does the transaction go?

Mr. WADSWORTH. France paid the exact amount back to us. As a matter of fact, France never had the money.

Senator REED. Let me state it again. Italy owed England \$16,000,000. We furnished this \$16,000,000. Then that \$16,000,000 was put to the credit of Italy, by Italy transferred to Great Britain, and then what took place?

Mr. WADSWORTH. England paid it right back to us.

Senator REED. How did France get in there?

Mr. WADSWORTH. To be credited to France.

Senator REED. Very well; England paid it to us, not on her own account, but on France's account.

So that the United States furnishes \$16,000,000 to pay a debt that Italy owed to England, and we have now the Italian Government's I. O. U. for that money.

Mr. WADSWORTH. And that represents the obligations of France. That was the adjustment of a joint-account purchasing arrangement which had gotten out of balance between these three countries. That was done in order that we might have the right amount of obligations from each country.

Senator REED. Exactly; but these three countries had been buying from the United States on joint account. They had been buying goods from the people of the United States, and they owed a certain amount of money. As between the three partners Italy got more than her share, and the other two partners, France and England, would have had to look to Italy for that \$16,000,000 ordinarily. Whereupon Uncle Sam comes in and furnishes the money with which to adjust this difference of accounts between the Allies after the war is all over.

Mr. WADSWORTH. It was an adjustment of final balances of the deliveries that were made. We found that Italy had received certain supplies over and above the amount of obligations that she had provided. France had received that much less. So it was purely an adjustment account.

Senator REED. But deliveries by whom? They were deliveries by private American citizens and by American corporations, to these three allied Governments.

Mr. WADSWORTH. But of purchases made for the war.

Senator REED. Exactly; of purchases made for the war. Now, they were private citizens that had also furnished vast amounts of material to the allied governments, and the allied governments had received those materials and taken them on private contracts. Do

you mean to say that it is any part of the duty of this Government to step in and furnish money to settle those private contracts?

Secretary MELLON. Will you let me answer that question, please? When I looked into this I found that this adjustment which has been made, and which Mr. Wadsworth has explained, was an obligation of this Government. It had all been contracted for. It was a part of the war negotiations. There was nothing else to do, because it was a debt of honor of this country to settle and complete it.

Senator REED. Where had that debt been made and how is it evident?

Secretary MELLON. Just as Mr. Wadsworth has explained, it originally came out of the advancements made and the supplies that have been paid for, and there was this adjustment, and, as he explained, there was that much to be changed and made the obligation of one Government rather than the other.

Senator SIMMONS. Mr. Secretary, is not this about the situation: This Government agreed to advance to the Allies a certain fixed amount to purchase goods in this country and to charge against each one of the Allies their pro rata part. That money was advanced, except this amount that you mentioned, and in the adjustment between the Allies as to how much they were to pay according to the amount of goods that they had gotten as the result of this credit it was found that Italy owed more and France owed less?

Secretary MELLON. Yes. It was just an incident that grew out of the whole transaction amounting to billions of dollars, and there was this small difference that it took to adjust. The arrangement had already been made that it should be adjusted in that way and it should be carried out.

Senator JONES. Mr. Chairman, I am sure this subject is pertinent to this bill or else the subject would not have been entered upon, but I like to keep in touch with the logic of the statements that are made, and I am unable to see just how it is pertinent to the bill, and I would like to have some one explain just why that is brought in at this time and how it bears upon the subject matter of the bill.

The CHAIRMAN. The Chair is unable to advise the Senator any better than he can advise himself. I take it that we are not here to defend the wisdom of these loans. They belong to a period now over. The question of whether they were wasteful or improperly made or economically made is not before this committee, as I understand it. We have to deal with them, and that is the purpose of this bill, to go into the merits of this transaction with Italy.

Senator JONES. That is the thought I had.

The CHAIRMAN. The Senator from Missouri could consult Col. House's memoirs.

Senator REED. The Senator from Missouri comes pretty nearly knowing what he is driving at and does not need any satire from the chairman.

The CHAIRMAN. I hope the Senator does not feel that way.

Senator REED. I so construe it. This is pertinent to this bill, in my judgment. I do not care to argue it; I shall present it on the floor of the Senate at the proper time. The Secretary has just answered Senator Simmons's interrogatory in the affirmative. That interrogatory, in effect, stated the situation to be that there had been an arrangement by the United States for the joint purchase by

the Allies of goods in this country; that the accounts were to be adjusted between the Allies; and that some of the Allies got more goods than they were entitled to. Now, is not this the fact: That no such arrangement was ever made; that what was done was this: The Secretary of the Treasury agreed to a commitment to England of a certain amount of money, to France of a certain amount of money, and to Italy of a certain amount of money; that then these countries, acting for themselves and by an agreement between themselves, purchased goods in this country; that at the end of the war they proceeded to a settlement between themselves and found that Italy had drawn more than her share; and that thereupon this Government, out of the commitment made to Italy, advanced the \$16,000,000? Is not that the situation, Mr. Mellon?

Secretary MELLON. You are pretty nearly stating the same thing.

Senator REED. Oh, it is a very different proposition.

Senator SIMMONS. My question assumes, Mr. Secretary, that the Government had entered into an agreement with those three Allies of ours to advance them a bulk sum of money. Senator Reed's question is based upon the theory that we had agreed to loan England so much, France so much, and Italy so much. The bases of the questions are different in that respect.

Secretary MELLON. It came about in this way: When the commitments were made, they were made in proportion to what those Governments required on the statements of their requirements, and, therefore, it was necessary when they came to the settlement to make the adjustment.

Senator WATSON. Mr. Secretary, I asked you awhile ago whether or not you have made any overtures to any of these nations with respect to the settlement of these claims, and you said none, with the exception of England. Have any of those nations made any suggestions to you or any overtures looking to the settlement of their debt?

Secretary MELLON. Not any of them.

Senator WATSON. None at all?

Secretary MELLON. None. There has been no correspondence about it whatever, so far as I know.

Mr. WADSWORTH. May I say here that there have been inquiries from some of the smaller Governments—Finland and Poland—as to what could be done in connection with their notes which matured or the interest which was due. But they have made no proposition; they have simply come in and said, "We realize that this is due, and we are in great difficulties about it." We, of course, have no authority as regards the loans to those Governments to say anything except that they must pay up.

Secretary MELLON. We have no authority whatever in respect to those Governments.

Senator SMOOT. Mr. Wadsworth, take Finland as an example: Was it not a fact that Finland wanted to borrow some more money and nobody would advance her money when her obligations were falling due on June 30 of this year to the Government of the United States, and she wanted to have an extension of time on her obligations?

Mr. WADSWORTH. She made the suggestion that we should take new notes which would bear date five years from now for the principal and the interest.

Senator REED. How much did Finland owe?

Mr. WADSWORTH. About \$8,000,000.

Senator REED. Finland did not exist when this war was ended, did she?

Mr. WADSWORTH. This was money that was advanced under the relief act.

Senator REED. I understand you to say, Mr. Secretary, that there has been no general plan discussed for the handling of this business which is referred to in the bill. Now, I want to read you a statement here and see whether there is any truth in it or not. I am reading from a newspaper clipping of June 17. It is an article by Robert B. Armstrong.

(The article referred to is here printed in full, as follows:)

NEW BONDS TO PUBLIC LIKELY—ADMINISTRATION MAY FUND ALL FOREIGN DEBTS—NATION MAY OR MAY NOT GIVE ITS GUARANTY—TREASURY DEPARTMENT NOW HAS NO POWERS.

WASHINGTON, June 17.—In announcing the decision of the Cabinet to request from Congress legislation to authorize the Secretary of the Treasury to fund and otherwise secure the obligations of foreign nations to the United States for moneys and supplies advanced, President Harding to-day confirmed the outline of several days ago of the manner in which the foreign loans were to be handled.

The discussion of the proposed plan took up the greater part of the Cabinet meeting and, while the administration has worked out in considerable detail what it desires to do in connection with the ten billion or more in loans, it must have the cooperation of both the Senate and the House to make the plan possible.

Briefly stated, the plan is to have all the foreign Governments, which now owe the United States money for supplies, place the obligations in the form of long-term bonds, these bonds to become the property of the United States Government, to be held by it or later offered to the investors of the United States in such amounts and at such times as it sees fit. The legislation asked will permit the Secretary of the Treasury to guarantee the principal and interest if, in his judgment, such course is desirable.

INTEREST OVERDUE.

All of the loans now due the United States carry with them a lot of overdue and accrued interest which, under the plan contemplated, will be included in the bond issue proposed to represent these loans.

The tentative plan contemplates that all of the accrued and overdue interest is to be either included in the amount of the bond issue to be pledged by the Governments which owe the large sums to the United States or that this interest be extinguished by increasing the rate on the long-time securities enough to absorb all the back interest and at the same time make the securities bear a higher rate of interest and become, therefore, desirable for the investors of the United States.

If this is done it is probable that the United States will not guarantee the bonds, but sell them on the interest rate and the security of the Government issuing them.

HAS NO AUTHORITY.

As it is now the Secretary of the Treasury has no authority to whip these loans into good bankable shape, and has neither the specific nor implied authority to permit any obligations to remain unpaid either in principal or interest. If Congress will clothe the Secretary of the Treasury with broad powers under general limitations to fund all these loans, and also authorize him to refund them from time to time if need be, the plan can be worked out in such a way to stabilize conditions both here and abroad, and such action probably will correct to a great extent the wide fluctuations in foreign exchange which has been unsettled ever since the war began.

Such an operation as contemplated in making this Government and the investors of the United States holders of long-term securities of the leading powers of the world will permanently intrench the United States as the creditor nation of the world.

I have read you the whole article, and I want to ask you if there is any truth in that statement?

Secretary MELLON. There was nothing so far as concerns any suggestion or anything originating with any foreign Government. There has nothing of that sort been suggested. There have been a great many suggestions generally by the press and by people of different methods of treating the indebtedness and of taking care of this accumulated interest, etc. There was a suggestion made and that was one which the President thought was a good one. It has not any significance so far as any particular government is concerned or so far as this refunding is concerned, excepting that it seemed a good business proposition. That suggestion was this. Here we had certain accumulated interest that it may be necessary or desirable to extend or defer the payment of. The thought there was this, that if, instead of adding that interest to the principal it was added to the rate of interest during the whole life of the bonds to be accepted, the refunding bonds, it would give those bonds a larger rate of interest than they otherwise would have. For instance, if we were going to accept refunding bonds at 5 per cent that we add this accumulating interest into an additional rate of interest and say, for example, that that made that rate of interest 6 per cent. That, then, would make the bonds more marketable. They would be bearing a higher rate of interest, and the benefit would come in the future from the fact that they bore a higher rate of interest and would be more marketable than they might be if they were at a lower rate of interest. That was merely an incidental suggestion.

Senator REED. You say you think that would be good business?

Secretary MELLON. It should be considered.

Senator REED. Let us put that in plain language. European Governments owe the United States in principal ten billions of dollars and in interest one billion dollars. The proposition is to have them issue their bonds not for eleven billions dollars bearing a rate of interest, but to have them issue their bonds for ten billion dollars bearing a higher rate of interest, the one billion dollars to be devoted to the raising or increasing of that higher rate of interest. Thereupon these bonds will be sold to investors. In that event Uncle Sam loses the one billion dollars of interest, does he not, that has already accumulated?

Secretary MELLON. If he does not sell the bonds, he gets the same money that otherwise would be gotten. Now, the matter of selling the bonds is a matter of judgment of Congress when the time comes.

Senator REED. But it will not be a matter of judgment of Congress under this bill; it will be a matter of judgment of the Secretary of the Treasury.

Secretary MELLON. No; this bill does not give authority to sell these bonds that are received, and if it did give that authority—

Senator REED. Under that arrangement—

Senator DILLINGHAM. May the witness complete his answer?

Secretary MELLON. I was going to say that there are no conditions now wherein anything of that sort could be accomplished. There is not any kind of a market.

Senator REED. Under that arrangement if Great Britain owes us four and a half billion dollars in principal and she owes us seven hundred million dollars in interest, she would issue her bonds to us

for four and a half billion dollars, not for five billion two hundred million dollars. These bonds would have a high rate of interest. Thereupon Great Britain could immediately cancel the whole obligation by paying us the principal and thus escape the interest, could she not? That is just what an Englishman would do, is it not? He is a pretty smart fellow.

Secretary MELLON. I do not think he would do so under present conditions. But that is merely one of a great many suggestions, and the President thought it was a good one and talked of it. There may be circumstances where it would be desirable to make that kind of an adjustment.

Senator REED. In these discussions with the President was the question of the substitution of the obligations of other Governments for the present obligations discussed?

Secretary MELLON. I did not understand that question.

Senator REED. You say the President did discuss this one plan which we have just been over?

Secretary MELLON. That was his talk with the newspaper people.

Senator REED. Did you never discuss this question with the President?

Secretary MELLON. The letter that is with the committee was my letter to the President explaining the situation to him.

Senator REED. What I am trying to get at is whether the Cabinet or the President discussed the question of the substitution of the obligations of one government for the indebtedness of another.

Secretary MELLON. There has been no situation to discuss. There may have been just a general discussion of all these suggestions.

Senator REED. I am not asking you, Mr. Secretary, whether you discussed the proposition as to whether you would do a particular thing with Germany or a particular thing with England but whether you discussed the proposition of the transfer of this indebtedness from one Government to the other by an exchange of obligations.

Secretary MELLON. The treatment of these loans or anything in the direction that you speak of was not a subject of discussion with the President or the Cabinet, excepting as relates to this act—that is, this question of requesting of Congress the authority to deal with it. That was discussed, and, of course, these other questions and suggestions that have been made came in, as always such questions do when there is a subject under discussion.

Senator WALSH. The authority sought in this bill, Mr. Secretary, is subject to the approval of the President?

Secretary MELLON. Yes.

Senator WALSH. Is there any reason you can state why it should not also be subject to the approval of the Senate the same as all foreign treaties and contracts are? I want to get your views on that.

Secretary MELLON. It would not be practicable. You could not come to a conclusion with the Government. If it had to come to Congress it would not be a practical method of settling these claims. I do not see how it could be done. It would take years to do it if it were done in that way.

Senator REED. We might have under some Secretaries of the Treasury two or three more billion dollars shoveled out—not under this one, I am very sure, and I would not reflect on Mr. Mellon for the world—but this is a matter that runs to the Secretary of the Treasury without any limiting clause.

Senator SIMMONS. I want to ask you one question with some matters propounded by Senator Reed. In refunding under the plan that the Senator was inquiring about, in which you incorporate the interest with principal at the time when the bonds were issued and charge a higher rate of interest, I do not know whether I understood you to mean that you would incorporate the interest already accrued or would remit that interest.

Secretary MELLON. You do not understand the situation. There is no policy and there has been no policy adopted. That was only a suggestion that that would be a practicable way of putting these bonds into marketable shape.

Senator SIMMONS. Which was it? That you would include the accrued interest in the bonds as a part of the principal or that you would remit accrued interest?

Secretary MELLON. Oh, no. I have not even heard the suggestion that we would remit the interest. Remitting would mean canceling it.

Senator SIMMONS. I understand that, of course; that is the meaning of the word, and I thought that was the way you understood it, Senator Reed.

Senator WATSON. That is the way Senator Reed put it.

Senator REED. Oh, no; I did not—thereby include the one billion in the interest, and that then it would immediately take up its obligations then at the face and thus escape the accrued interest.

Senator SIMMONS. I did not understand it that way. Suppose that is true and that you do issue the bonds in that way. Will not that bond be due at a specified time, and could that bond be paid at the option of the debtor Government if the creditor Government was not willing to accept the payment at that time?

Secretary MELLON. It would depend upon the terms that you agreed upon in the bonds.

Senator SIMMONS. If you did that, would you enter into an agreement with the debtor nation that they might liquidate that at any time? If you did, the result that the Senator described would follow.

Secretary MELLON. That is a speculative situation.

Senator SIMMONS. The reason I asked that, Mr. Secretary, is this: I have understood that a long-term bond could carry a better rate of interest than a short-term bond; that it was because it was regarded as a more desirable thing. But a long-term bond would amount to nothing if the debtor had the option to liquidate it at any time he pleased.

Secretary MELLON. It is customary in these long-term bonds to make them optionable at certain times. The Liberty loan bond issues have certain options in them, and that has been customary. But as to these obligations, we have not come to that; we do not know what those particular Governments will ask us to do, and when they do ask us we are not obliged to do other than what might seem to the best interests of our Government.

The CHAIRMAN. As I understand it, Mr. Secretary, each Government will have to be treated separately and as a distinct proposition.

Secretary MELLON. Yes; the obligations are entirely separate, and we expect to take up one after another.

Senator REED. Can you tell me the amount of interest that England is now involved, or can Mr. Wadsworth tell me the amount of obligations Great Britain now owes us?

Mr. WADSWORTH. I will do that in a moment.

Senator JONES. Recurring to the question of the substitution of obligations, would the situation or not be this, approximately: That the present debtor nations would not be particularly anxious to substitute obligations of another Government if the debtor nation had to guarantee the obligation of the other Government. But in the present contingency, when this money is due the United States, would it not be advisable from a business standpoint for this Government to accept obligations of other governments provided those obligations were guaranteed by the present debtor nation?

Secretary MELLON. Yes.

Senator JONES. Is not that about the situation?

Secretary MELLON. Yes.

Senator JONES. And assuming that they were German obligations, we would not be releasing—

Secretary MELLON (interposing). We would be adding.

Senator JONES. We would be adding to the security of our Government and getting payments which Germany might make on those obligations paid direct to the United States rather than through France, England, or Italy to the United States, when those Governments might see fit to make the payment?

Secretary MELLON. Yes.

Senator JONES. And then would there be any objection, Mr. Secretary, to our amending the bill by providing that in the event of such substitution that the present debtor nations should guarantee the obligation?

Secretary MELLON. I do not think so. I do not think that this authority should be limited, because you can not foresee what may arise. For instance, as I said before, there may be a country which in itself is not only in bad shape economically and financially, but that there is not any prospect of developing and rehabilitating; and suppose that that Government may have some securities which it might be able to release, it might be desirable to take that security and release the Government. I can imagine where that contingency might arise. I think it is not likely to happen; I do not know of any instance where there is any prospect of it happening, but there might be a case where a particular Government that might be in that unfavorable condition that they would have something where they would say, "If you will release us, we will turn this over," and we might not be able to get that security without releasing. I can understand and you can understand, as a business proposition, that there could be such a contingency where it would be desirable to make that change. I do not think it is likely to happen.

But, so far as limiting this authority is concerned, why limit it? If we are going to go wrong in judgment and not do the right thing, it is not likely to be on some particular point that you would limit us; we would go wrong on something more important than that.

And so I think that if you are giving authority that the authority ought to be complete.

Senator JONES. Mr. Secretary, do you not believe that in the present state of the public mind that it would be of advantage to the administration to have some such limitation as that in this law, because it has been circulated throughout the country that there is a movement on foot to have this country take the obligations of

Germany and release our present debtors, and if the contingency of accepting other securities free from any obligation of our debtors is remote, do you not think that it would have at least a good psychological effect to put a limitation in this bill to that effect?

Secretary MELLON. I think it is very much better to take that which is the logical and sound action, to give this authority where this authority can be used to the advantage of the Government and the people, and then any untoward psychological condition in the public mind will soon disappear.

Senator WILLIAMS. Or will not exist?

Secretary MELLON. Yes.

Senator REED. England owes us, I am informed by Mr. Wadsworth, in defaulted interest \$407,303,000. What is the reason England can not pay us that interest to-day when she can expend \$700,000,000 enlarging her navy?

Secretary MELLON. I do not know about her expending \$700,000,000 enlarging her navy, but you can understand that it may be much easier to expend money at home where it does not require gold, where it does not require a rate of exchange that every dollar paid costs \$1.60, or whatever it is—it is an entirely different proposition, because in the one case she has to pay in actual gold, in the other case it is merely a transaction between her own citizens. She buys something from domestic sources.

Senator REED. But the English gold sovereign is at par and exchange, less a small carriage and insurance rate, is it not?

Secretary MELLON. What is that?

Senator REED. The English gold sovereign is not suffering from the rate of exchange, is it, except that there is always a little rate of exchange?

Secretary MELLON. The gold sovereign is a gold sovereign, but if they do not have those gold sovereigns, then they must go out and buy exchange to make the equivalent of the gold sovereigns.

Senator REED. I understand that; that is to say, if they have inflated and depreciated currency, they must make that up. But if England was paying us in gold, she would not have to pay \$1.60 in exchange, would she?

Secretary MELLON. But, to answer your question, she does not require gold sovereigns to pay for battleships at home.

Senator REED. But if she would give us \$407,000 in gold, do you think she would be any worse off than if she expended at home \$765,000,000 on her navy?

Secretary MELLON. You can answer those questions in many ways. It might be much better if, because of giving us that gold, which she could not do practically—could not ship us the gold, but she would go out and buy exchange, and the very fact of her buying that exchange and putting up the rate of exchange she to that extent protects her own trade, because it makes it harder for her people to buy in this country; the higher the exchange the more difficult it is for them to buy goods from us. So it is conceivable that by paying us that money she would do very much better and benefit herself rather than using the money at home.

You can answer those questions in many ways.

Senator REED. You do not mean to say—and I drop the question if this merely explanatory suggestion—that England could not pay us in gold if she had the gold? Now, has she not got the gold?

Secretary MELLON. I do not know exactly. She has a limited amount of gold, like all countries have. The amount of actual gold is limited.

Senator REED. Are you in favor, under any circumstances, of accepting German bonds?

Secretary MELLON. No; on the question of any circumstances. I can imagine circumstances. If somebody came to me and offered me some German bonds, I might take them.

Senator REED. I mean for these debts?

Senator WATSON. Excuse me, Senator.

Senator REED. Yes.

Senator WATSON. I think if we are going to take up and discuss the financial condition of each nation and our relations to that nation and what we propose to do in regard to the indebtedness of that nation to us, that it is of such a delicate nature that I think we should go into executive session and discuss it. There are perhaps a good many things that the Secretary would want to say behind closed doors that he would not say in the open, and I have discovered something of a reticence on his part this morning.

The CHAIRMAN. The Chair understands, if the Senator will pardon me a moment, that the Treasury officials, including the Secretary, are entirely willing to encounter the most complete publicity in this whole matter.

Senator WATSON. I did not know how they might feel about it.

The CHAIRMAN. If the point is raised and if the Secretary thinks he has any communication which ought to be heard in executive session, at his request we can proceed to such session.

Senator WILLIAMS. Mr. Chairman, I would like to ask the Secretary this question: Of course, I will not name any nation, but are there not one or two peoples in Europe who owe us money which has been advanced during the war, whose bonds are now and are apt to be for 30 or 40 years worth less than the German bonds?

Secretary MELLON. I think that is so.

Senator WILLIAMS. And then if we trade one for the other we would be benefiting ourselves.

Senator REED. Do you think that is true, Mr. Secretary, that we would benefit ourselves by taking the German bonds?

Secretary MELLON. I would say this, I do not know of any such country that possesses German bonds. There may be such. When it comes to the question—

Senator WILLIAMS (interposing). But, Mr. Secretary, to complete my question, suppose that one of those countries were to receive as part of this reparation indemnity a certain amount of German bonds, and that country offering these bonds should be virtually bankrupt to-day, and were to offer to give us the bonds instead of their bonds, is it not conceivable that there might be a case where it would be to our interest to effect the exchange?

Secretary MELLON. Certainly.

Senator WILLIAMS. Let me ask you one more question: Is it not conceivable, Mr. Secretary, that some of these little countries which are nearly bankrupt that they own a railroad, where if they would agree to give us other securities in the shape of their railroad obligations instead of their government obligations that it would pay us to effect the exchange?

Secretary MELLON. That is conceivable.

Senator REED. If we then were to take a large block of these German bonds, thus becoming the creditor of Germany, partly with France and England and Italy, would not that put us in the position where we would be almost compelled to aid them in the collection of their debts in order to get our own?

Secretary MELLON. Those speculative questions, it seems to me, scarcely have bearing. We are not contemplating taking any large block of German bonds. No one has suggested giving us German bonds.

Senator LA FOLLETTE. Have any of the debtor countries suggested substituting the bonds of other countries for their obligations?

Secretary MELLON. No.

Senator LA FOLLETTE. I am not referring to German bonds now but to the bonds of any other country.

Secretary MELLON. No. No other country that I know of has made any suggestion to substitute or to give us any other bonds.

Senator REED. Mr. Secretary, was it not seriously put to the country and to the world a little while back that the Belgian debt to the United States should be wiped out by the acceptance of German reparation bonds?

Secretary MELLON. Oh, there was a time when there were many suggestions of that kind—

Senator WATSON (interposing). It was also suggested in a good many quarters that the debt be entirely canceled, was it not?

Secretary MELLON. Yes.

Senator REED. I am speaking of a serious proposition made by the Government of England or by their spokesmen, and has not that plan been considered, and is not that plan now under consideration?

Secretary MELLON. No; not to my knowledge, in any way.

Senator WALSH. If the members of the committee have finished with questions, I move that we now adjourn.

Senator McCUMBER. I just wanted to ask the Secretary one question: In any event there could be no objection to accepting German bonds as collateral security if any bonds of any other nation that was hard up and could not pay at the present time in not releasing that Government in the slightest degree?

Secretary MELLON. I do not think so.

Mr. WADSWORTH. May I say one thing in response to Senator Reed's question? There was a suggestion worked out, I think, in Paris during the peace conference that for all money which had been borrowed by Belgium up to the day of the armistice, England, France, and the United States might at some future time take German bonds; in other words, Germany should assume the debts Belgium had incurred during the war. Mr. Wilson, I think, presented such a plan to the Congress, and I think it has been presented in England and France, but has never been acted upon. Perhaps that is what Senator Reed referred to.

Senator WILLIAMS. Did you say that Wilson had presented it to Congress? You mean presented to him at the conference in Paris?

Mr. WADSWORTH. I think he made some announcement about it, that that was a suggestion.

Senator WILLIAMS. That fact is recorded in two or three books that purport to be an account of the Paris conference, that such a

proposition was made but was not accepted and not seriously discussed.

Senator REED. Just this one question, and then I am willing for a motion to be made to adjourn. I am going to ask the Secretary if he knows now, and if not, if he will ascertain before we renew the hearings, if it is not a fact that the British Government since the war has advanced to the Argentine Government \$50,000,000? I would like to know that fact in connection with this investigation.

Secretary MELLON. I will look into that and be able to answer the question.

The CHAIRMAN. The committee will now adjourn, subject to call by the chairman at an early date.

(Thereupon, at 12.10 o'clock p. m. the committee adjourned to meet at the call of the chairman.)